WORLD TRADE BOARD
Connecting Markets and People

Financial Inclusion in Trade Roadmap

Enabling fair and equitable access to trade finance

5 key components to drive meaningful impact

A joint publication from the World Trade Board

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Foreword

Micro, Small and Medium-Sized Enterprises (MSMEs) account for the vast majority of value in the global economy, but are greatly under-represented in global trade. In fact, just 23% of applications for trade finance in 2020 came from MSMEs, yet they accounted for 40% of failed applications.

This disparity lays bare the fact that these crucially important businesses are being discouraged from trying to access the sort of finance we know is vital for growth because they already know the answer.

At the same time, trade finance is thought to support around 80% of international trade. Taken together, we can see that exclusion from finance means exclusion from global markets for MSMEs.

The mismatch between demand for and supply of trade financing, known as the trade finance gap, was estimated to be $1.5 trillion in 2018. Now, exacerbated by the pandemic, this already immense figure is estimated to have grown to $2 trillion. Multiple solutions to address the gap have been put into action - many with success - but its rapid growth highlights the need to accelerate the pace of change.

To achieve this, we believe individual solutions need to be galvanized into coordinated and targeted action.

This Roadmap sets out for the first time a clear framework to harness the collective knowledge, expertise and technology required to unlock the potential of MSMEs in global trade.

Simon Paris,
Chief Executive Officer, Finastra
Chair of the World Trade Board

John Denton,
Secretary-General,
International Chamber of Commerce

Enabling fair and equitable access to trade finance for companies of all sizes is essential for the future of trade and economic growth. For too long, Micro, Small and Medium-sized Enterprises (MSMEs) – the veritable backbone of the global economy – have been locked out of the international trading system, largely due to a well-documented shortage of bank-intermediated financing.

These constraints are longstanding, with varying degrees of severity across different geographies.

Over the years, great effort has been put into seeking to empower MSMEs and attempting to secure an adequate flow of credit to the sector. While we must acknowledge this work, we know there is still more to be done to move the needle on worldwide financial inclusion.

The World Trade Board's Financial Inclusion in Trade Roadmap sets out pragmatic steps for better integrating MSMEs into both trade and finance.

The ICC, as the institutional representative of more than 45 million companies in over 100 countries, has always advocated for financial inclusion, trade growth and prosperity, which form the cornerstone of the Roadmap.

Working collaboratively, and following the steps outlined in this action plan, the trade and trade finance industry has the potential to ramp up inclusive growth and shared prosperity and achieve meaningful change.

Pascal Lamy,
Co-ordinator of the Jacques Delors Think Tanks, President of the Paris Peace Forum and Strategic Advisor to the World Trade Board

As the world grapples with the continued impact of Covid-19, the war in Ukraine and macroeconomic headwinds, SMEs are, without a doubt, in a particularly tough situation.

Representing approximately 90% of businesses and more than 50% of employment worldwide, these companies are the foundation of the global economy, and their success is fundamental to any real recovery.

Yet, an enduring lack of affordable and accessible financing limits especially emerging market SMEs' resilience and growth prospects, as well as their ability to trade internationally.

At the same time, physical supply chains have had their vulnerabilities laid bare by the pandemic, and no longer boast the stability and predictability of just a few years ago. This, too, impacts SMEs' ability to participate in global value chains.

Against this difficult backdrop, lines of credit need to be kept open, and not just for the most profitable deals.

Efforts must be made by all players, including the private sector, to include companies that might otherwise be outside the formal economy and the financial system, and to do so in a way that becomes part of core business strategies.

When it comes to the gaps in the provision of trade finance, no commercial bank or multilateral institution can address these on their own. They need to find new ways of partnering with each other, with governments and with other innovative organisations to deliver their expertise.

In a world where the global trade paradigm is shifting, such as with the trend towards slowbalisation and an increased focus on 'precautionism', which could develop into trade barriers in the long term, the trade finance market must continue to evolve and adapt to keep trade flowing where it is needed most.

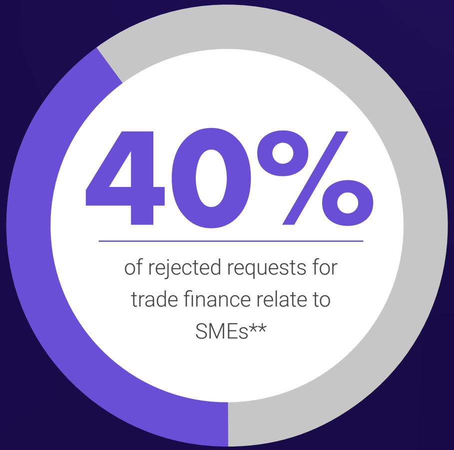
Why we need a plan

Small and Medium-sized Enterprises' (MSMEs') participation in global trade has consistently under-represented their role as employers.

The reasons for this have been well-documented. Initiatives have yielded some progress, but wide disparities still exist.

We believe that the rationale for the lack of impact is that there is no straightforward framework to understand how individual solutions can work together to drive meaningful impact and benefit.

To that end, in 2022 the World Trade Board convened a collaborative working group to build a Roadmap for Financial Inclusion in Trade and engage key stakeholders to collectively take action through pilots, policies and practices.



* World Trade Organization 2019

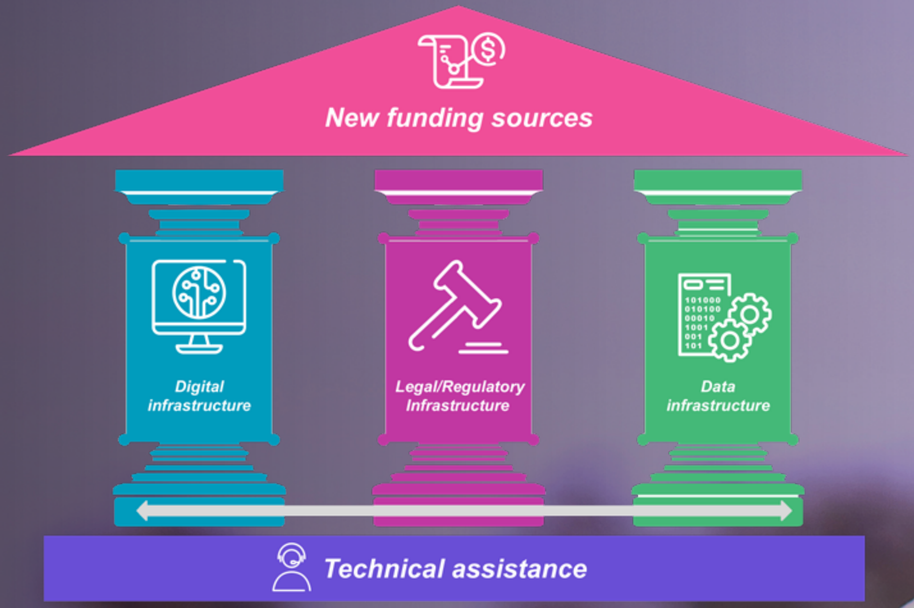
** Asian Development Bank 2021

We've done this before

Our belief in the need for a roadmap comes from experience.

In 2017, we executed the Digital Trade Roadmap for the International Chamber of Commerce. As a result, we have seen adoption of digital rules, the set up of a standards body for digital trade, passing of UNCITRAL Model Law on Electronic Transferable Records-compliant legislation in a number of countries, and an increase in investment in digital trade.

In the course of its research, the World Trade Board identified a multitude of actions with the potential to reduce the MSME trade finance gap. These ranged from implementing policies to pay MSMEs early to reviewing the capital model for trade finance to encourage MSME lending. Through industry engagement, this list was narrowed to five key components, selected for their capacity to collaboratively and significantly move the needle.



We already know what is needed to better integrate MSMEs into trade and finance

Digital Infrastructure

Digitisation promotes the efficient verification of entities and transactions for legal, security and regulatory purposes. Actionable measures include:

E-invoicing is recognised as an entry point for the digital transformation of MSMEs. It is also a fundamental building block for the success of trade finance marketplaces and receivables exchanges.

Digital identities, such as the Legal Entity Identifier (LEI) and Decentralised Identifiers, meet the global need for automated authentication and verification of legal entities.

Legal/Regulatory Infrastructure

Many countries do not yet have **laws to govern factoring,** a financial service for open account trade receivables. Such legislation recognises the rights of the third parties that purchase these assets, thereby reducing legal risks and facilitating the efficient financing of receivables. The UNIDROIT Factoring Model law, to be released in 2023, has broader implications for all forms of open account financing.

Prudential and non-prudential regulation of factors and factoring transactions is not always streamlined and regulators in many jurisdictions require guidance on how to ensure such regulatory measures address the needs of the industry.

Data Infrastructure

MSMEs are unable to access trade finance because of the traditional way that banks evaluate finance applications. The need to develop a new approach for assessing MSME credit risk has been well-documented. Nascent steps are being taken within the industry to create frameworks for artificial intelligence (AI)-led credit decisioning based on real-time transaction data (such as purchase orders and invoice history) rather than company financials. Industry **access to receivables-related data points** needs to be secured as a necessary first step in the building of these new models.

Technical Assistance

Small and mid-sized financial institutions in particular require technical assistance and learning to understand and enable the digital, legal and data infrastructure and transform their offering to MSME clients.

New Funding Sources

Trade finance for MSMEs has a heightened perceived risk profile, even for transactions that are fundamentally workable, where the company is a credible borrower. New funding sources for MSME trade finance assets can be **encouraged by infrastructure that will close the gap between perceived and actual risk.**

What actions must be taken?

New funding sources

- Develop an infrastructure to encourage investment in credible MSME trade finance assets

Legal/Regulatory Infrastructure

- Drive the adoption of, or alignment with, the global unified Model Law on Factoring and its broader implications, and facilitate adoption of efficient regulatory regimes

Digital infrastructure

- Encourage mandatory e-invoicing
- Accelerate the adoption of digital identities through mandated utilisation in the access and provision of financial and public services

Technical assistance

- Support technical learning amongst financial institutions and MSMEs

Data infrastructure

- Increase access to trade receivables-related data points required to make credit decisions

Digital identities: Accelerate the adoption of digital identities, such as the Legal Entity Identifier (LEI) and Decentralised Identifiers, through mandated utilisation in the access and provision of financial and public services.

Responsible Party	Action
Standards bodies	Deliver an interoperability framework to bridge the various identity specifications leveraged by both the private and public sectors, across regions. Incorporate LEI and other identity frameworks as guidance for all legal identifier schematic requirements in data models.
Banks	Subsidise the cost of adoption of a digital identity for MSME clients. Participate in the Global LEI System as Validation Agents.
Industry associations (including the World Trade Board)	Publish best practice guidelines on the issuance and utilisation of digital identities in KYC/AML processes, including the adoption of a global digital unique identifier, the LEI, for entities. Deliver a clear articulation of the benefits of the utilisation of digital identities for various economic sectors.
Government (Treasury and Revenue authorities)	Enhance and support the use of LEI by fostering nationwide implementation strategies such as subsidising bulk registration, either through financial institutions or directly via national business registrations. As a lighter measure, consider subsidising or mandating the use of LEI as a support measure particularly targeting the MSME sector, either directly via local business registration or as a part of directives and legislation relevant to cross-border payments where entity identification is needed. Trade-linked government agencies: mandate the referencing of LEI as part of the regulatory/border clearance processes, as being trialled by some customs departments. This supports the mapping of the LEI to other identifiers in their digital infrastructures to promote interoperability of LEI and other identifiers and facilitate automated reconciliation and validation.

E-invoicing: Encourage e-invoicing at scale to generate a credible, robust data set that could address current data gaps.

Responsible Party	Action
Government	Promote and support the adoption of e-invoicing and the deployment of Value Added Tax invoice registries.
Industry associations (led by FCI and ICC)	Conduct research to determine the correlation between e-invoice penetration and receivables financing volumes.

Pillar 1

Pillar 2: Legal/Regulatory infrastructure

Support the adoption of, or alignment of legal frameworks with, UNIDROIT's Factoring Model Law (FML) and its broader implications, and facilitate adoption of efficient regulatory regimes.

Responsible Party	Action
Multilaterals and industry associations (including FCI and IFC)	Conduct research to identify priority nations for FML adoption. Analyse the anticipated industry impact of FML on receivables financing volumes as a percentage of GDP. Prepare a toolkit outlining the practical steps for driving adoption of FML and engage industry advocates to help deliver the messaging – including the broader implications for all forms of open account financing.
Regulatory agencies, industry associations, multilaterals and international NGOs	Facilitate dialogue and coordination among various stakeholders at the national and multinational levels about the relevance for and importance of establishing a conducive regulatory (prudential and non-prudential) environment to facilitate factoring and receivables finance. Conduct research to demonstrate the case for change, based on the local economy/ies.

Pillar 2

Pillar 3: Data infrastructure

Gain access to trade receivables-related data points to update traditional credit-decisioning methods.

Responsible Party	Action
Industry associations (including ICC and FCI)	Coordinate efforts to expand the ICC Trade Register, for instance by including data on trade receivables, and cover greater market share, in order to provide policymakers with the basis on which to act to widen the pool of funding available to SMEs.
FCI and partners	Commit to rolling out a Centralised Payment Repository for providers of short-term receivables finance. Adopt a global digital unique identifier, the LEI, as applicable in the Centralised Payment Repository.
Government	Take action on the FSB recommendations to FSB member jurisdictions on options to improve adoption of the LEI for use in cross-border payments.

Pillar 3

Pillar 4: Technical assistance

Support technical learning amongst financial institutions and MSMEs on matters related to legal, digital and data infrastructure.

Responsible Party	Action
Government **Multilateral development banks**	Provide technical assistance to small and mid-sized financial institutions relating to the components outlined in the digital, legal and data infrastructure and the impact on their offering to MSME clients.
Banks	Support MSME clients' understanding of the components outlined in the digital, legal, regulatory and data infrastructure.

Pillar 4

Pillar 5: New funding sources

Develop an infrastructure to encourage investment in credible MSME trade finance assets.

Responsible Party	Action
World Trade Board	Convene fintechs, fund managers, development banks and insurers to establish a new credit-enabling and enhancement first-loss blended finance fund in Africa, which can be replicated elsewhere.
Government	Roll out comprehensive trade finance bank referral schemes to alternative lenders on a global basis.

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About the World Trade Board

The World Trade Board was established in 2016 with a mission to improve people's lives by connecting trade, finance and technology, enabling long-term growth and prosperity.

Members of the World Trade Board include leaders across trade, technology and finance.

The Board is advised by Pascal Lamy, previously DG of the World Trade Organization.

The Board previously held the annual World Trade Symposium as a central point for leaders in the global trade and supply chain ecosystem to connect, collaborate and reimagine the marketplaces of tomorrow.

worldtradesymposium.com

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Thank you to the wider working group that include, among others:

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